Income Distribution Becomes More Unequal

Income inequality in the U.S. has been increasing since the 1980s, but this trend has accelerated, according to the most recent data available. In Mississippi, the increase has been particularly dramatic: from 1999 to 2005, the real income of the top 20% of families increased 23%, while that of the bottom 20% fell 8.5%, as shown in Table 4. In contrast, the U.S. growth rate of incomes in the top 20% was 9%, although the top 5% saw a 15% increase (column 4). [To improve accuracy, the figures for average real income in 2005 shown here are post-federal tax averages of Census data for 2004, 2005 and 2006, and are adjusted for family size and government transfers, except for publicly-financed health care.]

In fact, Mississippi experienced the greatest increase in income inequality between the top and bottom quintiles of any state. Only New York and Alabama had a greater inequality between these two quintiles than did Mississippi, where the average real income at the top was 8.27 times that at the bottom. The top 20% of families here receive 45.9% of total Mississippi income, a higher percentage than is true of the U.S. as a whole where the comparable figure is 43.3%.

At the same time, the average income in Mississippi is below that of the U.S. for every income group. The smallest gap is at the top, and the largest at the bottom two quintiles. **The top 5% here have incomes equal to 93% of the U.S. level on average**, and the top 20% are at 89% of the U.S. average. The bottom quintile average is 78% of the corresponding U.S. figure, and the next 20% is at 75%.

These numbers are analyzed by Bernstein et al. of the Economic Policy Institute and the Center on Budget and Policy Priorities. Their study finds that the growing inequality is largely due to growing wage inequality, although federal tax reductions have also favored those at higher income levels. The authors offer **several possible steps towards reversing this growing inequality** that range from bolstering social safety nets, such as unemployment benefits and the earned income tax credit, through tax reform and early childhood education/child care, to improved institutional decision-making processes at both the national and state levels.

As an aside, the authors address income mobility, presenting figures that show that 70% of households in the bottom fifth in 2001 were still there two years later. They also cite a 2007 study showing that among children who started at the bottom, most (58%) were not there 35 years later, although income mobility was found to be considerably lower among blacks than among whites.

Table 4. **AVERAGE REAL INCOMES OF FIFTHS OF FAMILIES, 2005 WITH GROWTH RATES AND INCOME SHARES MISSISSIPPI (2005 Dollars)**

	Average Income	Share of Total Income	MS Growth of Real Income 1999-2005	U.S. Growth 1999-2005
Top 20%	$117,454	45.9%	23.4%	9.1%
[Top 5%	$205,526	20.1%	n.a.*	15.2%]
Second 20%	$58,426	22.8%	1.7%	3.6%
Middle 20%	$39,924	15.6%	-1.6%	1.3%
Fourth 20%	$25,906	10.1%	-8.1%	-0.4%
Bottom 20%	$14,205	5.6%	-8.5%	-2.5%

Note: This data is derived from the Current Population Survey of the U.S. Census. Since the sample size is relatively small, the 2005 average income is derived from averaging the three years of 2004, 2005 and 2006. The 1999 average (not shown) is similarly a three-year average. The income is post-federal-tax, and includes the cash value of food stamps, subsidized school lunches, and other government transfers such as social security and welfare. Realized capital gains and losses are not included, nor is publicly provided healthcare.

*n/a signifies that the state did not have sufficient observations in the Current Population Survey to allow for the calculation of reliable estimates of average income.

SOURCE: Economic Policy Institute/Center on Budget and Policy Priorities. See "Pulling Apart", April 2008, by Bernstein, McNichol and Nicholas at www.cbpp.org.